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DEPARTMENT OF TAXATION

ANNUAL REPORT 1983-1984

BEST AVAILABLE COPY

The Honorable George R. Ariyoshi
Governor
State of Hawaii

Herbert M. Dias
Director of Taxation
State of Hawaii

October 1, 1984

The Honorable George R. Ariyoshi
Governor, State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

I am pleased to present to you this annual report of the activities of the Hawaii Department of Taxation for the fiscal year ending June 30, 1984.

Total revenues collected by the department reached an all-time high as a result of higher-than-expected business activity, reduced levels of unemployment, the impact of increased tourism and the reduction of the general income tax credit.

In pursuit of a long-standing goal, the department entered into a seventeen-month contract with Electronic Data Systems in April, 1984 for the development and implementation of a comprehensive net income tax system. This automated system is scheduled to begin processing returns in January, 1986, providing an effective information system for employees while improving the level of services to Hawaii's taxpayers.

I am happy to have this opportunity to present this accounting of our stewardship and to give credit to the employees of the Department of Taxation for their part in the achievements of fiscal year 1983-1984.

Respectfully submitted,

Herbert M. Dias

HERBERT M. DIAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

Fiscal year 1983-1984 saw significant accomplishments in pursuit of the department's three priority goals: 1) providing the taxpaying public with timely and useful information and assistance; 2) streamlining the processing of tax documents through expansion of computerized operations; and 3) increasing the equitability of the tax system by identifying and assessing those who are not paying their fair share of taxes.

In support of the tax department's goal of providing information and assistance to the public, employee-volunteers again participated in the federal-state Volunteer Income Tax Assistance (VITA) program. These volunteers assisted community groups and individuals with income tax preparation. With the support and encouragement of management, the number of tax department employees participating in the VITA program has grown from 10 to 53 over the past three years.

This past fiscal year saw improvements resulting in faster and more efficient handling of taxpayer documents and refunds. A pilot program involving the microfilming of individual income tax returns led to better document control especially with regard to the status of taxpayers' refunds. More front-end sorting of returns was made possible with the addition of a new second shift of full-time and temporary employees during the tax-filing season. Overtime was substantially reduced from 4,440 hours in fiscal 1982-1983 to 943 hours in fiscal 1983-84.

Significant progress was made towards the multi-year automation program. The majority of the modifications of the data processing programs concerning general excise and withholding taxes have been completed. Soon to be completed will be the updated design application documentation for Phase II of the Comprehensive Net Income Tax (CNIT) system. The mini and microcomputers have been ordered with delivery scheduled before 1985. Our immediate objective is to automate the net income tax system and implement an office automation system before January, 1986.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to process all tax documents received in the most efficient and expeditious manner possible, to maintain accurate accounting records for all tax programs, and to provide service to all taxpayers who seek assistance through correspondence, telephone and/or personal contact on tax matters.

This division undertook a pilot program of microfilming the individual net income tax returns and generating an on-line inquiry file, which provided an invaluable service to the Department of Taxation and to the taxpaying public.

By initiating two working shifts during the peak tax months, March to May 1984, the Documents Processing Branch was able to decrease the time lag that existed between the time mail was opened to the time monies were deposited and/or refunds were issued. As a result, 200,974 Oahu taxpayers (79% of the Oahu taxpayers requesting a refund) received their checks within five weeks of the postmark date of their return. As for taxpayer payments, 95% of the checks were deposited within three days after receipt of mail in the Receiving and Sorting Section.

The Documents Processing Branch also implemented a modified edit and sort procedure for the 1984 tax season. This change resulted in a 58% reduction in the number of individual net income tax returns referred for audit from 125,000 in 1983 to 52,000 returns in 1984 and eliminated the necessity for office auditors to work overtime.

Maximized use of the Revenue Accounting Branch's displaywriter resulted in this equipment performing over 60% of the accounting and filing activities which were previously done manually.

A new self-help program designed by the Taxpayer Services Branch for the 1984 season taught taxpayers how to fill out Form N-13 (the short form) through a systematic self-education process with information on basic filing principles. This program and the 53 employees of the department volunteering their weekends to the Volunteer Income Tax Assistance (VITA) program resulted in a decrease in taxpayers requiring assistance in preparation of returns.

COMPLIANCE DIVISION

Maximizing voluntary public compliance with Hawaii's tax laws is the primary objective of the Compliance Division. The two major programs of the division are: (1) an audit program to ensure accurate tax reporting, and (2) an enforcement program to identify and collect delinquent accounts.

During the past fiscal year, considerable time and effort were spent in reviewing and revising procedures in the Audit Branch and in the enhancement of the general excise/withholding tax programs. As a result, most of the returns claiming refunds were processed by June 30, 1984 and overtime dropped from 1,584 hours last year to zero this tax season. This improvement was made possible by using selected guidelines to screen returns for referrals to audit, a procedure which enabled the staff to work simultaneously on revenue adjustment reports, amended returns, and refund returns.

A team consisting of delinquent tax collectors, tax examiners and field auditors worked on revising the existing general excise/withholding programs and procedures and managed to not only identify but recommend prescribed changes to the program. Working with the contractors on a project known as the "Enhancement of the General Excise/Withholding System," they were able to implement improvements to the system that would expedite processing and reduce errors.

During the past fiscal year 37% of the field audit man-days was spent on special assignments primarily with the Attorney General's office, resulting in a decrease in the number of Oahu audits completed from 1,074 in FY 1983 to 655 in FY 1984. Despite this decrease, the Oahu field audit staff was able to increase the assessment amount from $14.9 million in FY 1983 to $21.5 million in FY 1984.

The nonfilers unit in the Enforcement Branch continued to develop a consistent and effective general excise/withholding nonfilers program and collected $2.2 million. In 1982-83, an investigation of records disclosed substantial noncompliance with general excise tax laws by landlords. Based on this finding, the nonfilers unit with assistance from the tax return examiners checked through the net income tax returns this year and derived $1 million in taxes on unreported rental income.

STAFF OFFICES

Administrative Services Office

The Administrative Services Office coordinated the preparation of the supplemental budget for 1984-85. Included in the budget is the amount alloted for Phase II of the CNIT system.

The department accomplished its goal of meeting the turnover savings mandated by the legislature and the budget restrictions imposed by the Department of Budget and Finance.

Personnel transactions/movements within the department included 29 civil service new hires for permanent regular positions, 121 temporary appointments, and 15 retirements. Other transactions included promotions, transfers and reallocations totalling thirty, 13 resignations and 115 terminations involving temporary positions. The department's affirmative action plan was approved and issued by the Director's Office.

Systems and Procedures Office

The Systems and Procedures Office continued work on the CNIT system. The 1984 Legislature released funds for the CNIT project with the approval of the governor.

On April 16, 1984, Electronic Data Systems (EDS), a high technology firm based in Dallas, began work on a 17-month contract for the development and implementation of the CNIT system. EDS has five systems engineers working in the Department of Taxation plus approximately 20 computer programmers in Sacramento, California working on the CNIT project. On July 13, 1984, EDS completed the satellite communication line from the Department of Taxation to Sacramento. The capability to evaluate the computer development and other useful software at the data center is now available for the CNIT project.

Three committees for the CNIT project were formed: the User Committee, Technical Committee and Peer Review Committee. Participation in the committees will range from a minimum of 20 employees with an expected maximum of 35 employees at various stages of the development cycle of the CNIT. Included in the minimum resource commitment for the CNIT project is the addition of four new in-house, full-time computer programmers to the department.

The recent acquisition of three IBM-PCXT microcomputers and an IBM System 36 minicomputer will help the CNIT project with the documentation process. At a future date the microcomputers will be used by the Compliance Division's Office Audit Branch and Enforcement Branch to enhance operations. The minicomputer is the beginning of an in-house computer capability for the Department of Taxation.

Income Technical Office

The Income Technical Office prepared testimony on 39 House bills, 46 Senate bills and one Senate concurrent resolution during the 1984 legislative session.

In response to requests, approximately 763 memorandums, rulings and letters were issued by the Income Technical Office. One hundred applications for exemption from the payment of general excise taxes from nonprofit organizations were received and approved.

Tax information releases numbered six compared to four for the prior fiscal year. In addition, there were five Department of Taxation Announcements issued during the year ending June 30, 1984.

Rules relating to the individual housing account were approved by the governor on September 27, 1983.

In expanding its search for more and diverse courses of instruction, the Income Technical Office increased the number of training courses from nine in the previous year to an all-time high of twenty-seven.

Nearly two hundred employees throughout the department received training from the Internal Revenue Service (IRS), departmental instructors, guest speakers, as well as from professional tax seminars. The IRS invited our examiners and auditors to attend its annual professional training sessions. Our departmental training staff provided instruction on

fifteen tax topics involving new tax laws, general excise tax issues, individual net income tax matters and Hawaii tax appeals process. Guest speakers from the local CPA community joined our teaching staff and spoke on six tax-related subjects such as real estate tax shelters and partnership taxation. Finally, other selected employees attended four annual tax seminars sponsored by the Hawaii Tax Institute and the local professional accounting societies.

The Income Technical Office was responsible for updating, revising, and drafting tax forms, schedules, and pertinent instructions for tax year 1984.

On September 7-9, 1983, the Fifteenth Annual Conference of the Boards of Taxation Review was held at the Department of Taxation's Hale Auhau Building in Honolulu, Hawaii. The Income Technical Office took the initiative in planning, organizing, coordinating and arranging the conference. Speakers from various disciplines were invited to address the members and guests of the four Boards of Taxation Review.

Tax Research and Planning Office

The T[illegible]arch and Planning Office provides technical and administrative assistance to the Council on Revenues.

For fiscal year 1983-84, the Council on Revenues estimated the general fund tax revenues to increase 7.0% to $1,158.3 thousand. Actual collections were $1,178.3 thousand, an 8.8% growth over last year. Influencing the difference in results were higher-than-expected business activity and reduced levels of unemployment. Among other factors considered were the impact of increased tourism and the decreased $1 general tax credit.

Total personal income was estimated by the Council on Revenues to increase 7.3% in calendar 1983. This was later revised to 6.3% in October, 1983. Most recent data by the Bureau of Economic Analysis, U.S. Department of Commerce, places the calendar 1983 change in Hawaii total personal income at 6.8%.

Three studies were completed by the Tax Research and Planning Office during the year. The first composite business income study, covering statistics from a sample of 1979 corporation and sole proprietorship returns, was published in October, 1983. Earlier published in separate reports, data on corporations and proprietorships were combined in one report.

In March, 1984, the eighth study on tax credits was published. Based on a sample of 1982 individual income tax returns filed in 1983, this report covers the excise, renters', $25 general income, child care expense, solar energy device, heat pump and water heater insulation tax credits.

The department's twenty-fifth annual edition of "Hawaii Income Patterns — Individuals" was published in June, 1984. Using sample data from 1982 individual tax returns filed in 1983, the report presents details of income, adjustments, exemptions, deductions and tax liability reported by Hawaii taxpayers.

Planned for completion in fiscal year 1985 are the business income study (biennial) covering 1981 corporation, proprietorship and partnership returns, the 1983 tax credit study, and the 1983 "Hawaii Income Patterns — Individuals."

During the 1984 legislative session, The Tax Research and Planning Office reviewed 100 tax measures to determine the revenue impact of each proposal.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Herbert Dias
Deputy Director of Taxation	Wallace Aoki

DIRECTOR'S OFFICE STAFF

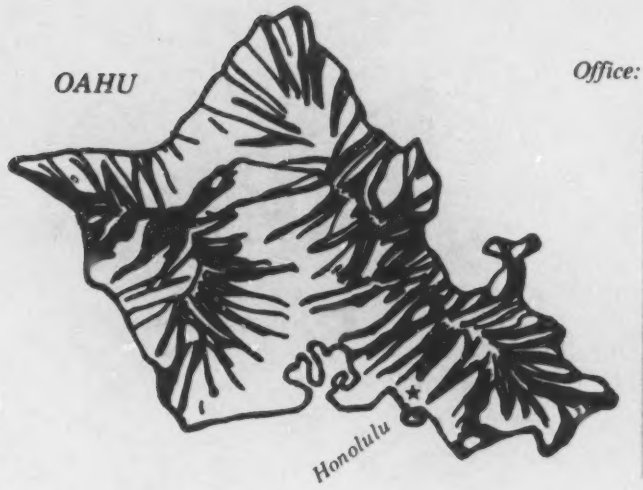
Income Program Officer	David Miyahira
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Edwin Matsui
Administrative Services Officer	Vacant

OPERATIONS STAFF

Compliance Division Chief	Kenneth Murayama
1st Taxation District Office (Oahu)	
Audit Branch	Susumu Oi
Enforcement Branch	Wayne Kinoshita
2nd Taxation District Office (Maui)	
Audit Branch	James Horikawa
Enforcement Branch	Stanley Ching
3rd Taxation District Office (Hawaii)	
District Tax Administrator	Sanford Yanagi
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District Office (Kauai)	
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services & Processing Division Chief	Gilbert Chang
Taxpayer Services Branch	Lawrence Nakano
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Warren Higashi

FIRST TAXATION DISTRICT

Island of Oahu

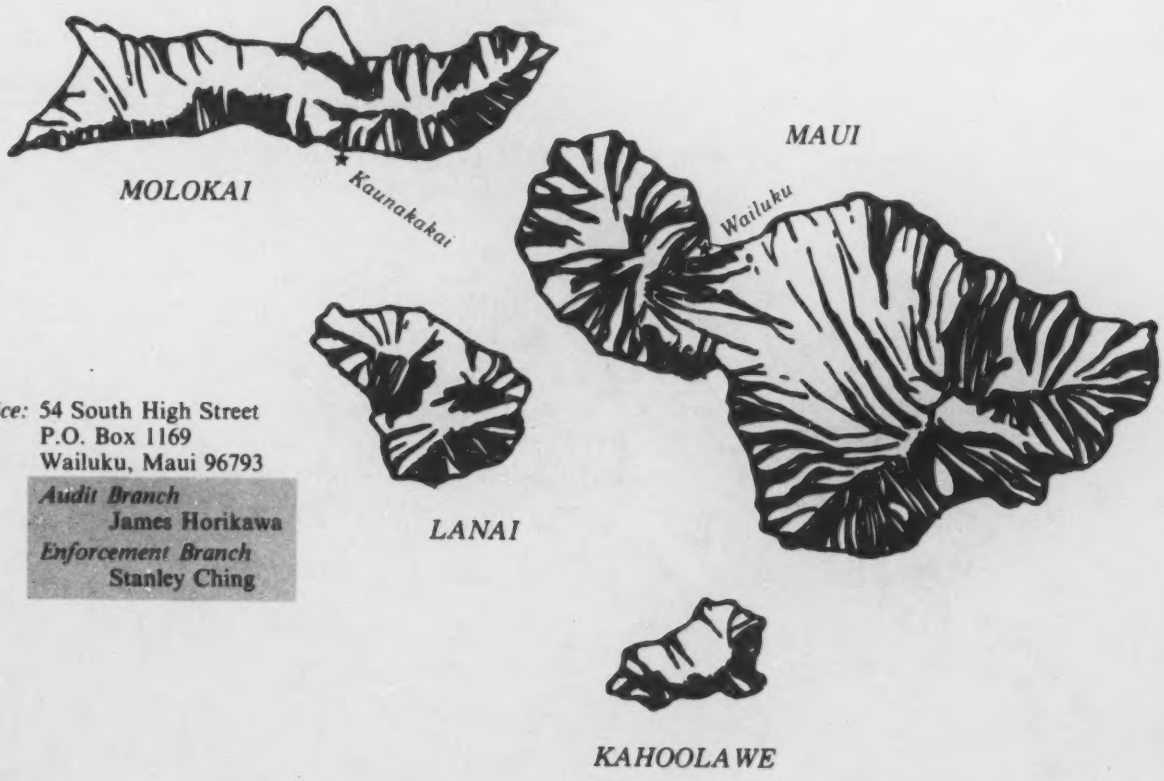


Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Kenneth Murayama
Audit Branch Chief
Susumu Oi
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Gilbert Chang
Taxpayer Services Branch
Lawrence Nakano
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Warren Higashi

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai

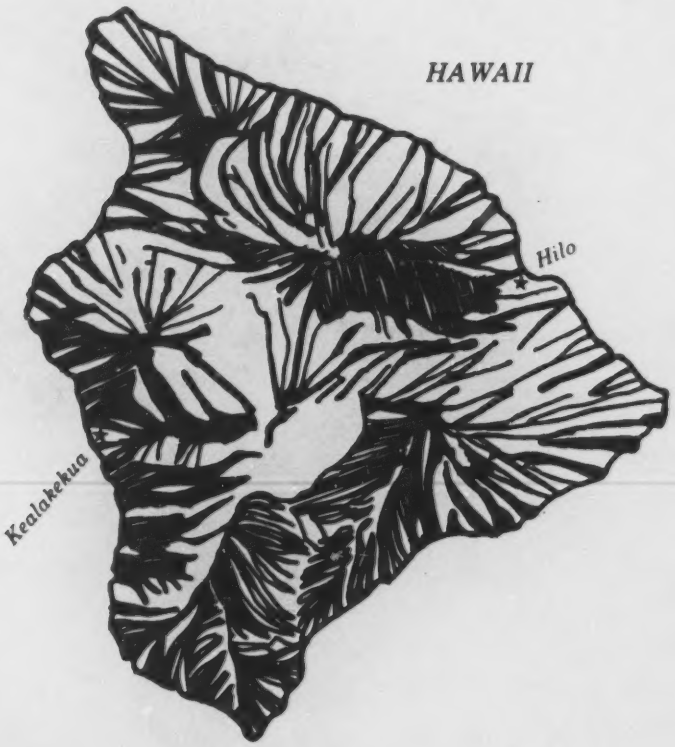


Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
James Horikawa
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

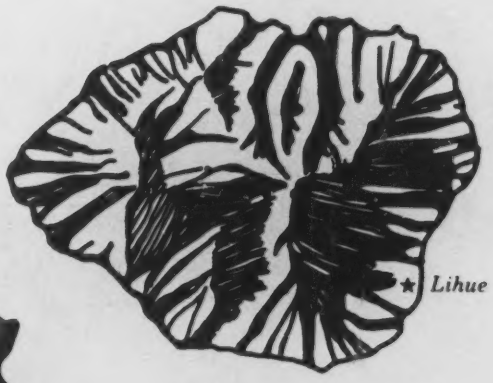


Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

District Tax Administrator
Sanford Yanagi
Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

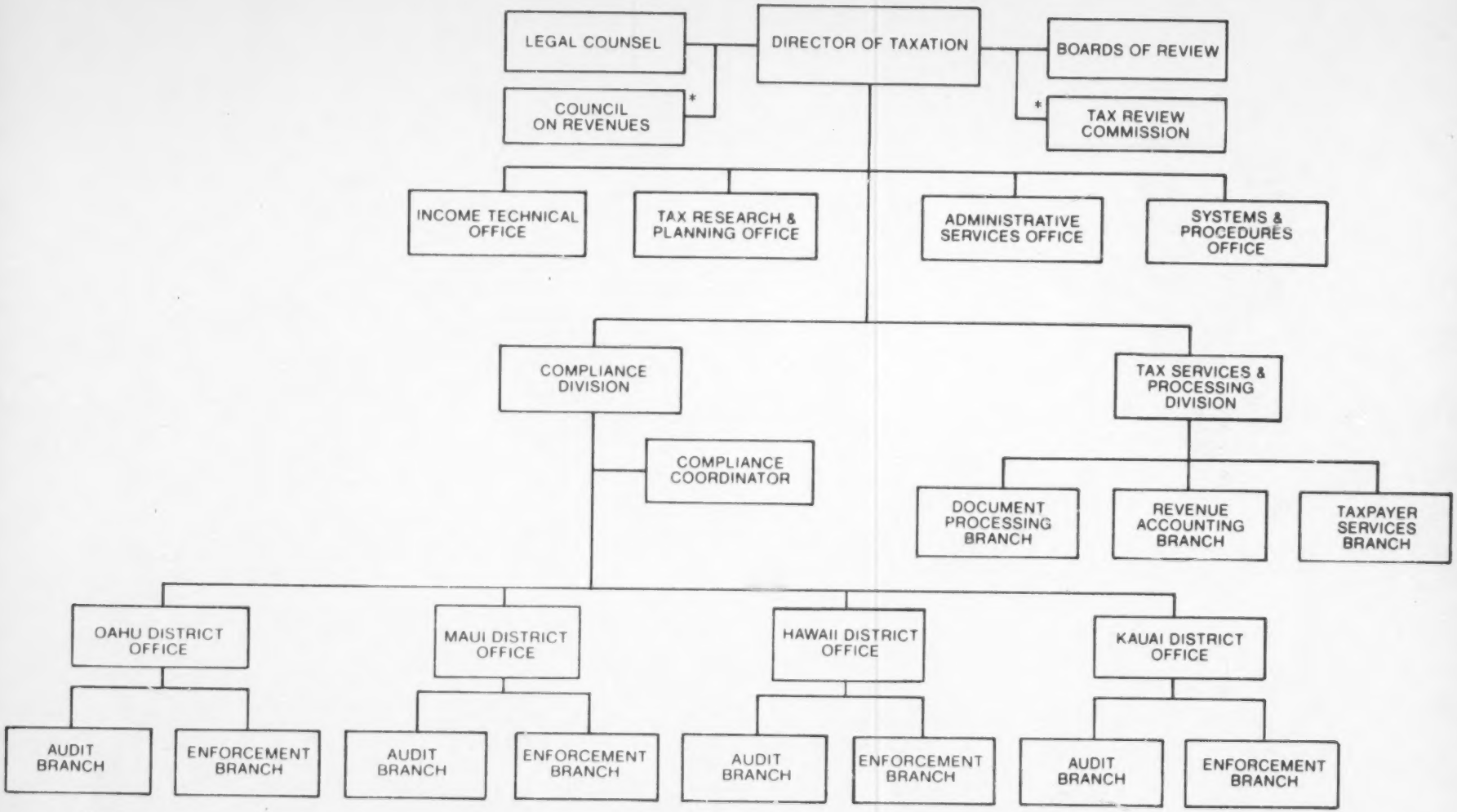


Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

ORGANIZATION CHART

Department of Taxation
State of Hawaii



*For Administrative Purpose

TAX LITIGATION

BOARD OF TAXATION REVIEW

The Kauai Board of Taxation Review received 11 appeals, ten of which were filed by tax protestors. Nine of the ten cases involving tax protestors were heard and all of them were determined in favor of the state. The following table summarizes the appeals before the Boards of Taxation Review during the 1983-1984 fiscal year.

	Boards of Review			
	Oahu	Maui	Hawaii	Kauai
Appeals pending at year start	26	28	4	—
New appeals filed	11	6	4	11
Appeals settled	4	23	5	9
Appeals pending at year end	33	11	3	2

SUPREME COURTS AND TAX APPEAL COURT

The legal counsel of the Department of Taxation closed 154 cases during the year, as follows:

Tax Appeals

United States Supreme Court 2
Hawaii Supreme Court 2
Tax Appeal Court 1

Other Matters

Mortgage Foreclosure 126
Bankruptcy 12
Inheritance and Miscellaneous 11

Summarized below are the major cases heard by the U.S. Supreme Court, the Hawaii Supreme Court, and the Tax Appeal Court:

Aloha Airlines and Hawaiian Airlines *Decided November 1, 1983*

At issue was whether or not the state could assess the public service company tax on the airlines as a means of taxing their personal property as measured by their gross receipts. The airlines challenged the assessments upon the ground that the Airport Development and Acceleration Act of 1973 (49 U.S.C.A. 1513) prohibited the states from levying any tax, fee, head charge, or other charge on air transportation or on the gross receipts derived therefrom. The Act provided for exceptions and permitted certain taxes to be imposed, including property taxes. Both the Tax Appeal Court and the Hawaii Supreme Court had interpreted the public service company tax on airlines to be a property tax and therefore a permissible tax. The U.S. Supreme Court, reasoning that the public service company tax was an indirect means of taxing the gross receipts of the airlines, reversed the Hawaii Supreme Court judgment and preempted the state from taxing the airlines.

Bacchus Imports, Ltd. and Eagle Distributors, Inc. *Decided June 29, 1984*

The taxpayers challenged the constitutional validity of Hawaii's liquor tax law because of the exemptions accorded to the manufacture and sale of okolehao and fruit wine manufactured from fruits grown in the state. They argued that the exemptions violated the Equal Protection, Commerce and Import-Export Clauses of the U.S. Constitution and the Hawaii State Constitution. Both the Tax Appeal Court and the Hawaii Supreme Court had denied the constitutional challenge and had affirmed the validity of the exemptions. The U.S. Supreme Court reversed this decision by ruling by a 5 to 3 majority that the exemptions for okolehao and fruit wine violated the Commerce Clause because they had the effect and purpose of discriminating in favor of local products. The case has been remanded to the state courts on the issue of damages, if any, sustained by the taxpayers.

Panorama Air Tours, Inc. *Decided May 7, 1984*

The Hawaii Supreme Court reversed the determination made by the Tax Appeal Court and agreed with the Director of Taxation that the gross income of Panorama Air Tours from the sale of package tours by travel agents consisted of the gross amount collected from each purchaser of the tour. The Tax Appeal Court's determination had been that taxpayer Panorama was justified in deducting from its gross income the amounts it paid to the travel agents as commissions.

Jurgen F. & Teresita Vahrenkamp *Decided September 29, 1983*

The case involved an attempt by the taxpayers to claim a credit on their Hawaii state income taxes for the amount of taxes paid to the Danish government for dividends received from a Danish corporation. For the tax years 1979 and 1980, the amounts of Danish dividend taxes paid were allowed as credits against their federal income taxes. The taxpayers' claims for similar credits against Hawaii income taxes were disallowed. Instead, the amounts of Danish dividend taxes paid were allowed as deductions to arrive at net taxable income but not as tax credits. The Tax Appeal Court affirmed the disallowance of the credits.

LEGISLATION

In its continuing efforts to conform Hawaii's tax laws to the Internal Revenue Code, the 1984 state legislature passed Act 99. With certain exceptions, this Act incorporates the Internal Revenue Code as amended as of December 31, 1983.

Other tax bills enacted are summarized below:

Act

29 General Excise Tax Law: Redefines gasohol in more explicit terms compatible with the federal interpretation, specifies that the ten percent ethanol in the mixture is ten volume percent and that the ethanol includes a denaturant.

53 Income Tax Law: Provides that the Department of Taxation shall not use the worldwide method of unitary taxation.

55 Income Tax Law: Provides a one-time $1 general income tax credit for qualifying resident taxpayers on their 1984 income tax returns.

60 General Excise Tax Law: Redefines the term "contractor" to include pest control operators.

73 General Excise and Use Tax Law: Redefines the term "agricultural products" to allow agricultural and aquacultural producers to pay the ½% general excise tax rate on their raw materials and imposes a ½% use tax rate on imports by such producers.

95 Amends the name of the "subchapter S corporation" to "S corporation"

134 Appropriates funds out of the general revenues of the state for the purpose of satisfying claims for overpayment of taxes, judgments against the state, and other claims, including interest refunds to Aloha Airlines and Hawaiian Airlines.

163 General Excise Tax Law: Extends for three years through June 30, 1987 the transfer of funds from the general excise tax on retail sales of liquid fuel sold or used for highway purposes from the state general fund to the state highway fund.

248 Estate and Transfer Tax Law: Clarifies the term "executor" in the definition of "personal representative" and specifies persons who are considered not having control of a decendent's property.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

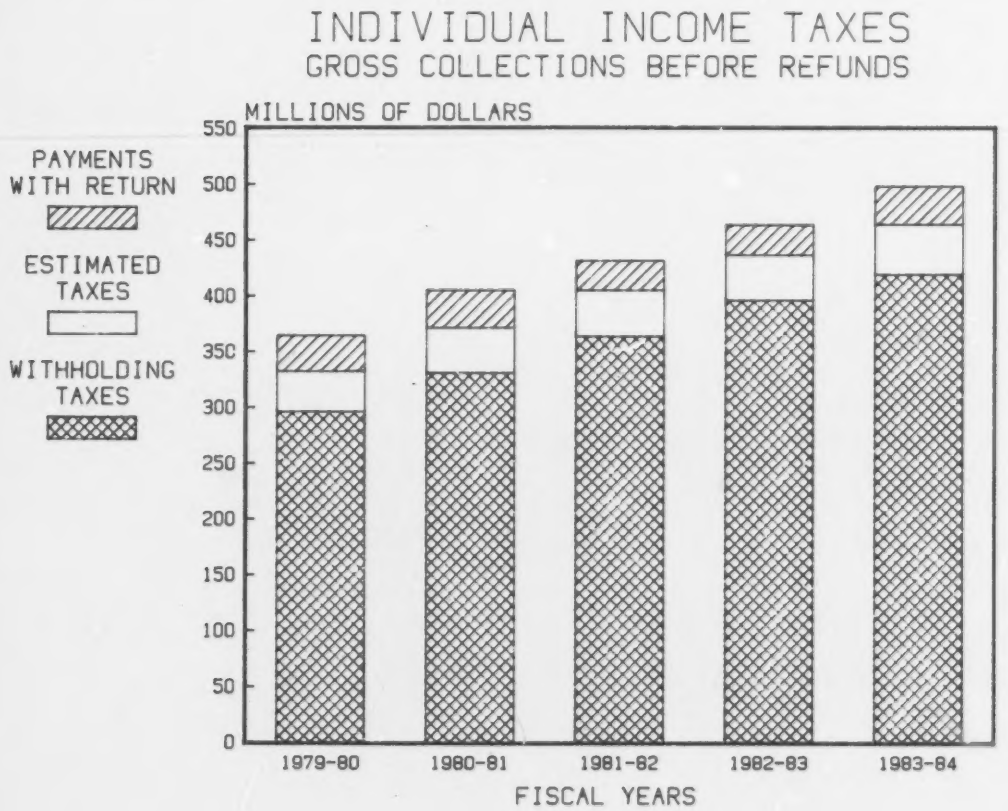
Taxes paid by individuals subject to Hawaii's income tax law advanced 16.2% to $403.1 million. With the exception of refunds, all other components of the individual income tax registered increases over the past fiscal period.

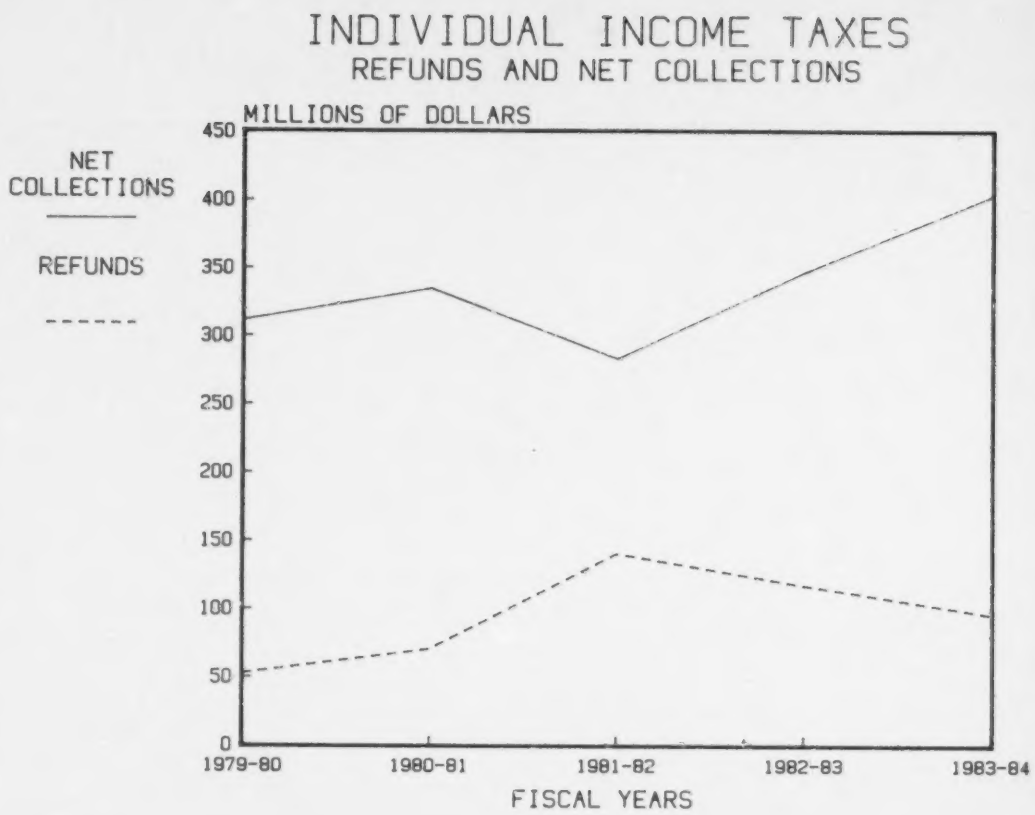
The withholding tax on wages rose 5.9% to $419.4 million compared to $396.2 million for fiscal year 1983. In contrast, both payments with returns as well as estimated taxes experienced double-digit increases of 26.9% and 10.6%, respectively, over the comparable period for fiscal 1983. To an extent this indicates that other income sources, such as dividends and interest, advanced at a faster rate than salaries and wages.

The number of refunds processed dipped 6.2% to 344,408 compared to 367,244 a year earlier. The refunds disbursed during the fiscal year dropped $21.3 million to $95.4 million in contrast to $116.7 million a year earlier. Thus the average refund for fiscal 1984 was $277.06 compared to $317.81. The drop in the general income tax credit from $25 per qualified resident for taxable year 1982 to $1.00 per resident is reflected in the lower net refund for the period just ended.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 1984	FY 1983	Av. Annual Change (Percent) 1983-84	1979-84
Declaration of Estimated Taxes	$ 44,931	$ 40,629	10.6	9.4
Payment with Return	34,131	26,899	26.9	9.2
Withholding Tax on Wages	419,435	396,200	5.9	9.5
Subtotal	$498,497	$463,728	7.5	9.3
Refunds	95,421	116,712	-18.2	19.8
Net	$403,076	$347,016	16.2	9.7





CORPORATE NET INCOME

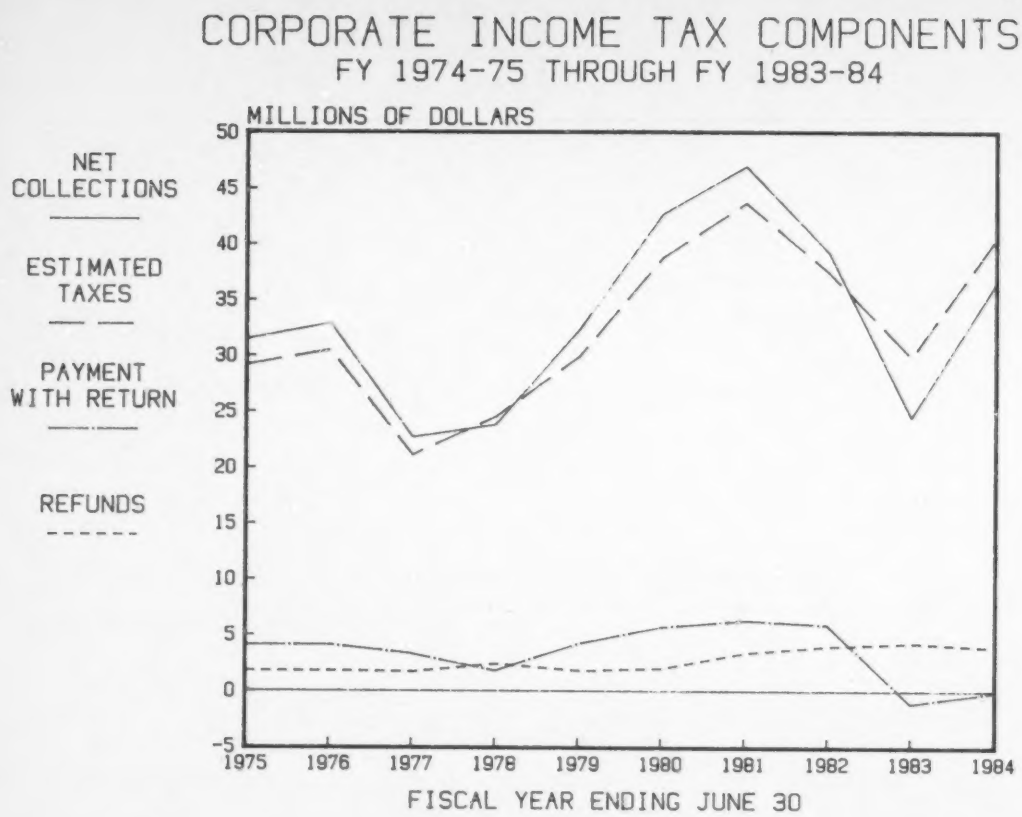
The fiscal year was characterized by the upturn in net corporate income taxes. For the past two years, there was a steady decline in corporate income taxes, triggered by a sluggish economy and rising net operating loss claims that resulted in refunds of prior year tax payments. Such claims tapered off, with refunds due to net operating losses exceeding payments of current taxes by $72.0 thousand in contrast to $1.1 million a year earlier.

An indicator of the acceleration of corporate activity is the growth in estimated tax payments to $40.4 million, a hefty 35.0% increase over $29.9 million for 1983.

The number of refunds processed dipped to 1,467 and the average refund was $2,632. A year ago, total refunds of $4.3 million were distributed to 1,552 claimants for an average refund of $2,793.

TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1984	FY 1983	1983-84	1979-84
Declaration of Estimated Taxes	$40,363	$29,891	35.0	8.6
Payment with Return	(72)	(1,090)	93.4	2.9
Subtotal	$40,291	$28,801	39.9	7.2
Refunds	3,861	4,335	-10.9	18.4
Net	$36,430	$24,466	48.9	7.4



GENERAL EXCISE AND USE TAXES

General excise and use taxes, as a percentage of total state tax collections, dropped one percentage point to 47.9 percent for 1984 from 48.9 for 1983. Revenues from this source however, rose 6.3% to $639.2 million in contrast to $601.1 million a year earlier.

With the exception of the ½% use tax, the revenue generated by all other business activities subject to the general excise and use taxes registered increases over the previous year. For activities taxed at the 4% rate, services and non-hotel rentals showed the largest percent change, advancing 9.0% and 9.9%, respectively. The latter reflects the rather high residential rental occupancy rate that is being experienced.

GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR THE FISCAL YEARS ENDING JUNE 30, 1984 & 1983
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1984	1983	% Change
TAX BASE				
Retailing		$ 7,686,331	$ 7,247,797	6.1
Services		2,228,547	2,044,754	9.0
Contracting		1,327,939	1,321,195	0.5
Hotel Rentals		916,108	873,760	4.8
All Other Rentals		1,676,413	1,525,570	9.9
All Others (4%)		1,250,154	1,151,456	8.6
Subtotal		$15,085,492	$14,164,532	6.5
Sugar Processing		$ 414,301	$ 392,411	5.6
Pineapple Canning		200,358	180,004	11.3
Producing		229,674	192,246	19.5
Manufacturing		527,855	498,460	5.9
Wholesaling		3,847,019	3,554,137	8.2
Use (½%)		1,748,059	1,947,813	-10.3
All Others (½%)		129,533	83,353	55.4
Insurance Commissions		228,802	202,413	13.0
Subtotal		$ 7,325,601	$ 7,050,837	3.9
TOTAL - ALL ACTIVITIES		$22,411,093	$21,215,369	5.6
TAX				
Retailing	4%	$ 307,453	$ 289,912	6.1
Services	4%	89,142	81,790	9.0
Contracting	4%	53,118	52,848	0.5
Hotel Rentals	4%	36,644	34,950	4.8
All Other Rentals	4%	67,056	61,023	9.9
All Others	4%	50,007	46,058	8.6
Subtotal		$ 603,420	$ 566,581	6.5
Sugar Processing	½%	$ 2,072	$ 1,962	5.6
Pineapple Canning	½%	1,002	900	11.3
Producing	½%	1,148	961	19.5
Manufacturing	½%	2,639	2,493	5.9
Wholesaling	½%	19,235	17,771	8.2
Use	½%	8,740	9,739	-10.3
All Others	½%	648	417	55.4
Insurance Commissions	.15%	343	303	13.2
Subtotal		$ 35,827	$ 34,546	3.7
TOTAL - ALL ACTIVITIES		$ 639,247	$ 601,127	6.3

INHERITANCE AND ESTATE TAX

The inheritance and estate tax is applied to estates of persons dying before July 1, 1983. The inheritance tax is levied on the transfer of the decedent's property and is based on the value of the taxable property after adjusting for exemptions and deductions.

The estate tax is levied whenever the estate is subject to the estate tax under the federal law. In effect this is a residual tax which picks up the difference between the Hawaii inheritance tax and the federal credit for state death taxes.

Effective June 8, 1983, Hawaii's Inheritance and Estate Taxes Law was repealed and replaced with the Estate and Transfer Tax. This tax is equal to the federal state death tax credit which is imposed on the transfer of property of a taxable estate. Thus, no estate tax is payable if there is no taxable estate. The tax, if applicable, is imposed on estates of decendents dying after June 30, 1983.

The statistics below reflect settlements of estates of decendents whose taxable estates were subject to the inheritance and estate taxes as well as those who expired after June 30, 1983 and whose estates were subject to the estate and transfer tax.

Of the 5,191 estates settled, 793 were taxable. Inheritance and estate taxes of $6.7 million collected this year compares with $6.4 million collected a year ago

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1984	FY 1983	1983-84	1979-84
Inheritance Tax	$6,170	$6,270	- 1.6	9.3
Estate Tax	417	98	325.5	82.2
Subtotal	$6,587	$6,368	3.4	10.2
Penalty & Interest	65	48	35.4	18.3
TOTAL	$6,652	$6,416	3.7	10.2

PUBLIC SERVICE COMPANY TAX

On November 1, 1983, the U.S. Supreme Court ruled in favor of Aloha Airlines and Hawaiian Airlines, thus prohibiting the state from taxing the gross receipts derived from sale of air transportation.

As a result of the airlines' litigation, refunds of past tax payments were made to the claimants, precipitating a drop in public service company taxes to $59.6 million versus $66.4 million a year ago.

Tax revenues from public utilities dipped slightly to $58.3 million and revenue from motor carriers and contract carriers also experienced lower levels, dropping to $7.3 million compared to $7.7 million a year ago.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1984	FY 1983	1983-84	1979-84
Public Service Company Taxes	$59,441	$66,217	-10.2	14.0
Penalty & Interest	118	178	-33.7	26.5
TOTAL	$59,559	$66,395	-10.3	14.0

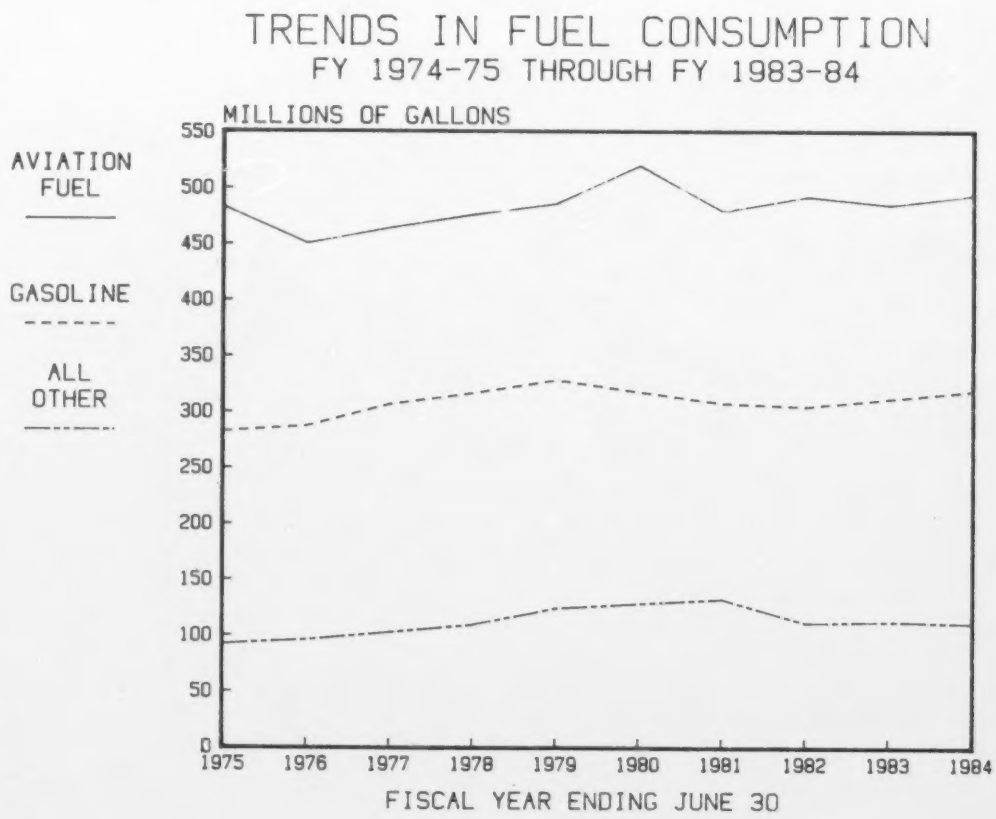
FUEL TAXES

The consumption of gasoline increased for the second consecutive year to 318.8 million gallons in contrast to 311.7 million gallons for fiscal 1983.

The City and County of Honolulu reported the largest growth in gasoline consumption, or 3.6 million gallons, while the County of Hawaii registered an increase of 1.7 million gallons. For the Counties of Maui and Kauai, consumption grew by 1.2 million gallons and 0.6 million gallons, respectively.

Statewide diesel oil consumption for highway use posted an appreciable gain of 6.6% over 1983 to 17.1 million gallons while the growth in nonhighway diesel fuel advanced by less than 1%. As reflected in the tabulation below, all other fuels, except gasoline and aviation fuel, experienced lower consumption levels during the year.

Fuel taxes accruing to the state highway fund advanced 2.4% to $29.1 million. Collections from the state motor vehicle weight tax and registration fees increased to $9.3 million in contrast to $8.9 million for 1983.



GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1984	FY 1983	Av. Annual Change (Percent) 1983-84	1979-84
Gasoline	318,800	311,720	2.3	- 0.7
Diesel Oil — Nonhighway	89,277	88,518	0.9	- 2.6
Diesel Oil — Highway	17,109	16,043	6.6	5.1
Liq. Petro. Gas — Off Highway	2,850	2,986	- 4.6	7.0
Liq. Petro. Gas — Highway	969	1,035	- 6.4	- 3.6
Small Boats — Gasoline	163	195	-16.4	12.8
Small Boats — Diesel Oil	391	608	-35.7	- 3.7
Aviation Fuel	494,001	485,122	1.8	0.4
TOTAL	923,560	906,227	1.9	- 0.3

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1984	FY 1983	Difference
STATE HIGHWAY FUND:			
Gasoline	$26,707	$26,125	$ 582
Diesel Oil — Nonhighway Use	888	876	12
Diesel Oil — Highway Use	1,440	1,341	99
Liq. Petro. Gas — Off Highway Use	28	30	(2)
Liq. Petro. Gas — Highway Use	57	62	(5)
Subtotal	$29,120	$28,434	$ 686
Motor Vehicle Weight Tax/Reg. Fees	9,272	8,921	351
TOTAL	$38,392	$37,355	$1,037
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$15,581	$15,310	$ 271
County of Maui	2,022	1,928	94
County of Hawaii	2,105	2,001	104
County of Kauai	642	632	10
TOTAL	$20,350	$19,871	$ 479
BOATING SPECIAL FUND	$ 500	$ 477	$ 23
STATE AIRPORT FUND:			
Aviation Fuel	$ 4,940	$ 4,851	$ 89

FUEL TAX RATES PER GALLON

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE):			
City & County of Honolulu	8½¢	6½¢	15¢
County of Maui	8½¢	6¢	14½¢
County of Hawaii	8½¢	5¢	13½¢
County of Kauai	8½¢	4¢	12½¢
LIQUID PETROLEUM GAS (HWY USE):			
City & County of Honolulu	6¢	4¢	10¢
County of Maui	6¢	4¢	10¢
County of Hawaii	6¢	3¢	9¢
County of Kauai	6¢	3¢	9¢

OTHER TAXES

Tax revenue from all other sources totalled $134.6 million, or $5.4 million above the 1983 revenue of $129.2 million. The conveyance tax posted gains of 18.6 percent to $1.8 million, and this reflects the greater number of real estate transactions concluded during the year. For the period just ended, 26,938 deeds were recorded, a growth of 17.4% over the 22,943 recorded a year ago.

Collections from tobacco and licenses advanced 13.3% to $19.9 million. Employment security contributions are collected by the Department of Taxation for the Department of Labor and Industrial Relations and revenue from this source surged 12.8% to $76.3 million.

In recent years tax revenue from banks and other financial corporations have been dropping steadily. During fiscal 1982, refunds of past tax payments were made to offset net operating losses incurred and this generated a negative amount of $2.4 million. For the current period, tax revenues of $0.5 million was collected, and this indicates that some institutions are still incurring net operating losses. The negative $0.2 million in liquor taxes reflects accounting adjustments. Much of this is a result of transferring protested amounts to a special escrow account.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

TYPE OF TAX	FY 1984	FY 1983	Av. Annual Change (Percent) 1983-84	1979-84
Banks & Other Financial Corp.	$ 547	$(2,441)	nm	nm
Conveyance	1,797	1,515	18.6	1.2
Empl. Security Contributions	76,297	67,625	12.8	0.9
Insurance Premiums	26,606	26,356	0.9	8.0
Liquor & Permits	(209)	9,299	nm	nm
Tobacco & Licenses	19,949	17,609	13.3	11.3
All Others	383	361	6.1	1.3
Subtotal	$125,370	$ 120,324	4.2	- 1.1
Motor Vehicle Weight/Reg. Fees	9,272	8,921	3.9	3.0
TOTAL	$134,642	$ 129,245	4.2	- 1.1

nm = not meaningful

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections by the department, excluding taxes collected by other state and county agencies, amounted to $1,296.8 million in contrast to $1,191.7 million a year earlier. Taxes collected by other state agencies include $1.8 million in conveyance taxes collected by the Department of Land and Natural Resources and $26.6 million in insurance and premium taxes administered by the Department of Commerce and Consumer Affairs. The state motor vehicle weight tax, which is a revenue source for the state highway fund, is collected by the counties and transferred to the state Department of Budget and Finance. For the year, this revenue source reached $9.3 million in contrast to $8.9 million for 1983.

Of the $1,334.5 million in total taxes collected, $1,178.3 million accrued to the state general fund while the counties received $20.3 million. The remaining $135.9 million accrued to the state special funds, namely, highway, airport, boating, unemployment trust and election campaign funds.

DISTRIBUTION OF COLLECTIONS

	FY 1984 Amount Collected	% of Total	FY 1983 Amount Collected	% of Total
State General Funds	$1,178,259,045	88.3	$1,082,515,603	88.1
State Special Funds	135,907,812	10.2	125,911,686	10.3
County Funds	20,350,159	1.5	20,024,328	1.6
TOTAL	$1,334,517,016	100.0	$1,228,451,617	100.0

The tabulation below summarizes the taxes collected by the department in each taxation district for fiscal years 1984 and 1983.

TAX COLLECTIONS
(In Thousands of Dollars)

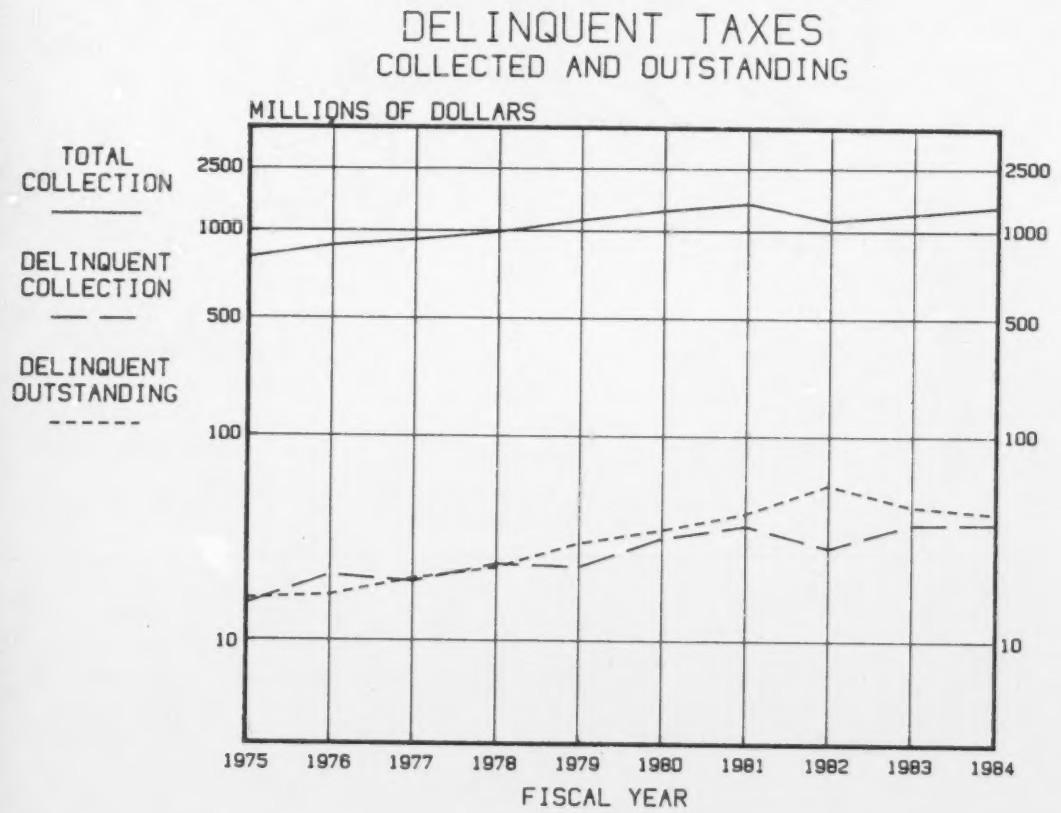
	FY 1984	FY 1983	Av. Annual Change (Percent) 1983-84	1979-84
OAHU				
Gross Collections*	$1,258,382	$1,177,872	6.8	5.0
Less Appeals, Payments under Protest, Refunds, TDI	124,019	133,538	- 7.1	22.4
Net Collections by Department	$1,134,363	$1,044,334	8.6	4.2
MAUI				
Gross Collections*	$ 83,102	$ 76,109	9.2	6.3
Less Appeals, Payments under Protest, Refunds, TDI	12,110	13,590	- 10.9	33.8
Net Collection by Department	$ 70,992	$ 62,519	13.6	5.8
HAWAII				
Gross Collections*	$ 82,109	$ 71,525	14.8	3.4
Less Appeals, Payments under Protest, Refunds, TDI	12,775	12,354	3.4	29.5
Net Collection by Department	$ 69,334	$ 59,171	17.2	2.5
KAUAI				
Gross Collections*	$ 32,909	$ 30,569	7.7	2.8
Less Appeals, Payments under Protest, Refunds, TDI	10,758	4,933	118.1	54.2
Net Collection by Department	$ 22,151	$ 25,636	- 13.6	- 1.7

**Excludes conveyance, insurance premium and motor vehicle weight taxes.*

DELINQUENT TAXES

At the start of the fiscal year, delinquent accounts numbers 20,851 and the outstanding taxes were $45.7 million. The number of new referrals totalled 39,312, nearly 4.0% below the 40,889 new accounts recorded in 1983.

The Enforcement Branch managed to keep up with the new and carry-over accounts and was able to close 42,871 delinquent accounts. Collections from these closings in fiscal 1984 were $37.7 million, up slightly from the $37.3 million a year earlier. The amount of outstanding delinquent taxes at year end was $42.3 million, $3.4 million less than the total for 1983.



BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective and comprehensive manner. The general excise tax continues to be the major source of the State's general fund tax revenue, followed by the progressive individual income tax.

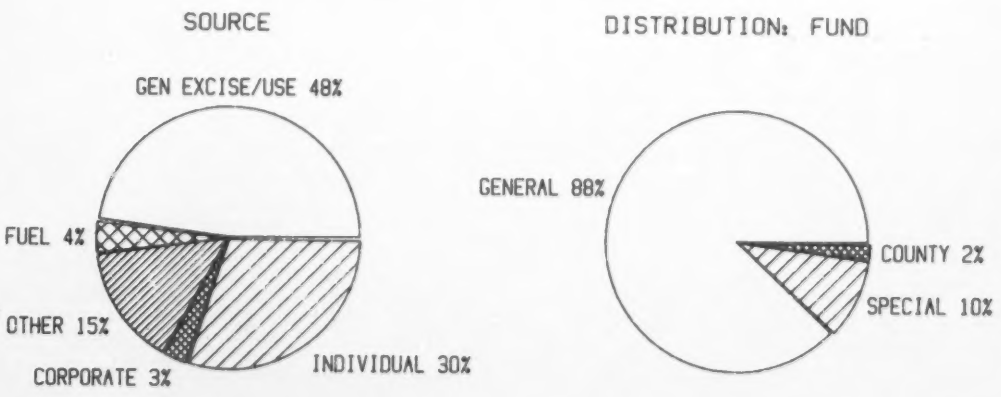
An outstanding characteristic of the state's tax structure is its use of income tax credits. In existence since 1965, these credits were designed to provide relief to low-income taxpayers. Over the years, changes were made to simplify both the filing process and the administration of these tax credits.

Two tax credits which can only be claimed by resident taxpayers with adjusted gross incomes under $20,000 are the excise tax credit and the low-income renter's tax credit. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The child care credit is available to qualified taxpayers of all income levels. However, beginning with the 1982 taxable year, the amount of credit, formerly 10% of expenses, became graduated against adjusted gross income (AGI), ranging from 15% of expenses for those with an AGI under $10,000 to 10% of expenses for those with an AGI of $18,000 and above.

For the taxable year 1983, Act 97 of the 1983 legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the state constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has fifteen separate tax laws of which twelve are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. The counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from ten of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the State, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.

TAX COMPOSITION: FY 1984



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%, with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis, with rates depending on the alcoholic content, and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for airlines, motor carrier and contract carrier business is 4% of gross income. However, airlines may pay at the rate of 3% if they adopt a fare schedule that is less than one-half of the regular adult fare for students in grades 12 or below traveling in school groups.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

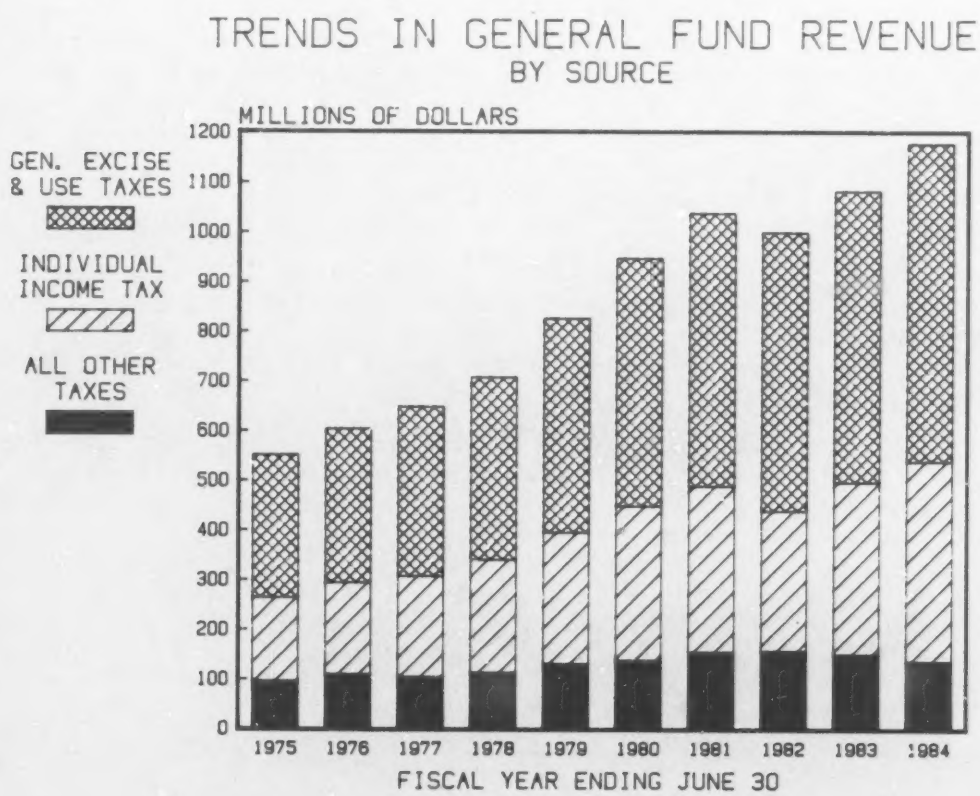
Director of Taxation Herbert Dias presents the department's 1984 outstanding employee award to Personnel Technician Betsy Furuta.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the council of each county. State fuel tax rates are established by the state legislature. Revenue from this source goes into State and county special funds for use in the construction and maintenance of highways, roads, airports, and boating program.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this year are: 6½¢ for the City and County of Honolulu, 6¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 8½¢ for all gasoline usages and diesel oil used on the highways, and 1¢ for diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate, ranging from 0.2% to 4.5% based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.



APPENDIX

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Tax Review Commission A-6

TAX COLLECTIONS

SOURCE OF REVENUE	FY 1984 Amount Collected	% of Total	FY 1983 Amount Collected	% of Total
Banks — Financial Corps.	$ 547,143	.04	$(2,441,046)	- .20
Conveyance	1,797,394	.13	1,514,888	.12
Employment Security Contributions	76,296,605	5.72	67,625,037	5.50
Fuel	54,909,756	4.11	53,633,459	4.37
General Excise & Use	639,246,714	47.90	601,127,326	48.93
Income — Corporations	36,430,730	2.73	24,466,504	1.99
Income — Individuals	403,076,248	30.20	347,015,648	28.25
Inheritance & Estate	6,651,792	.50	6,415,597	.52
Insurance Premiums	26,606,444	1.99	26,355,858	2.15
Liquor & Permits	(209,040)	—	9,299,285	.76
Motor Vehicle Weight/Registration Fees	9,272,415	.70	8,921,055	.73
Public Service Companies	59,559,375	4.46	66,395,288	5.41
Real Property	25	—	153,318	.01
Tobacco & Licenses	19,948,572	1.49	17,608,579	1.43
All Others	382,843	.03	360,821	.03
TOTAL	$1,334,517,016	100.00	$ 1,228,451,617	100.00

DISTRIBUTION OF COLLECTIONS

	FY 1984 Amount Collected	FY 1984 % of Total	FY 1983 Amount Collected	FY 1983 % of Total
STATE FUNDS:				
State General	$1,178,259,045	88.29	$ 1,082,515,603	88.12
State Highway	38,364,247	2.88	37,354,850	3.04
State Highway (Act 159, S.L.H. 1981)	15,122,115	1.13	15,538,477	1.26
State Airport	4,968,375	.37	4,851,222	.39
Boating Special Fund	499,414	.04	477,432	.04
Unemployment Trust	76,296,605	5.72	67,625,037	5.51
Election Campaign Fund	657,056	.05	64,668	.01
Subtotal — State	$1,314,166,857	98.48	$ 1,208,427,289	98.37
COUNTY REVENUES:				
Property	$ 25	—	$ 153,318	.01
Fuel	20,350,134	1.52	19,871,010	1.62
Subtotals — Counties	$ 20,350,159	1.52	$ 20,024,328	1.63
TOTAL	$1,334,517,016	100.00	$ 1,228,451,617	100.00

STATE GENERAL FUND

SOURCE OF REVENUE	FY 1984 Amount Collected	FY 1984 % of Total	FY 1983 Amount Collected	FY 1983 % of Total
Banks — Financial Corps.	$ 547,143	.05	$(2,441,046)	- .23
Conveyance	1,797,394	.15	1,514,888	.14
General Excise & Use	624,124,599	52.97	585,588,849	54.10
Income — Corporations	36,430,730	3.09	24,466,504	2.26
Income — Individuals	402,419,192	34.15	346,950,980	32.05
Inheritance & Estate	6,651,792	.56	6,415,597	.59
Insurance Premiums	26,606,444	2.26	26,355,858	2.44
Liquor & Licenses	(209,040)	—	9,299,285	.86
Public Service Companies	59,559,375	5.05	66,395,288	6.13
Tobacco & Licenses	19,948,572	1.69	17,608,579	1.63
All Others	382,844	.03	360,821	.03
TOTAL	$1,178,259,045	100.00	$ 1,082,515,603	100.00

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/84

	Training Course	No. of Employees	Hours of Training
1.	Leadership & Communication	3	21
2.	Cabinet Briefing on Office Automation	2	14
3.	Division Chiefs Introduction to Office Automation	2	14
4.	Cabinet Briefing on Theory Z	2	4
5.	1983 Clerical Seminar	37	296
6.	Ethics for Public Executives	3	9
7.	Motivating Our Human Resources	2	16
8.	Communication — An Executive Art	3	24
9.	Basic Word Processing Training	1	20
10.	Effective Public Contact	10	80
11.	Time Management	6	48
12.	Program Objectives & Measures of Effectiveness	1	4
13.	Creative Problem Solving	1	16
14.	Minicomputers for Executives	3	24
15.	Supervisory Skills Training	1	24
16.	Supervisory Management Course	2	40
17.	1984 Conference of C.S. Commissioners & Personnel Directors	1	20
18.	Basic Tax Research — RIA Tax Service	43	64
19.	Basic Tax Research — Prentice Hall Tax Service	67	67
20.	Basic Tax Research — CCH Tax Service	61	61
21.	Continuing Professional Education for Tax Auditors	9	144
22.	IRS Continuing Professional Education for Revenue Agents	19	57
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36.	Basics of Timesharing	47	47
37.	Partnership Taxation — Formation	52	104
38.	1984 HAPA Annual Tax Practitioners Institute	17	136
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40.	Business Activities Under the GE Tax Law — Part II	48	48
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43.	1983 HSCPA Annual Tax Conference	9	72
	TOTALS	1,145	2,826

NOTE: List does not include certain general interest training.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1983

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235—Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 11.0% of taxable income. The allowable zero-bracket amounts vary by filing status. The zero-bracket amount for married filing joint return or surviving spouse with dependent child is $1,000; single or head of household is $800; and married filing separately is $500. Tax rates for corporations are 5.85% up to $25,000, and 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th; June 20th; September 20th; and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate (For decedents dying before 7/1/83) Chapter 236—Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Nonresident tax on shares of net estate having situs in Hawaii. Exemptions: (a) Bequests to spouse $300,000; (b) parent, child, grandchild or legally adopted child $150,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10%; respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The personal representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Decedent's personal representative must complete the return and pay applicable taxes due within 18 months after death.
(3) Estate and Transfer (For decedent's dying after 6/30/83) Chapter 236D—Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC Section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (M-6) must be filed by person responsible for filing federal Estate Tax Return (Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extension of time; provided extension is submitted to Hawaii within 30 days of issuance.
(4) General Excise (Gross Income) Chapter 237—Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns
(5) Use Chapter 238—Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(6) Public Service Company Chapter 239—Sec. 239-1 to 239-11	Nature of Tax—(1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Airline, motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment—general rule: Gross income from airline, motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income, except airlines having special fare schedule for students, 3% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

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(7) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12½¢ to 15¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 12½¢ to 15¢ per gallon on diesel oil and from 9¢ to 10¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244—Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Section 431-318, 1978, relating to increase in premium tax rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

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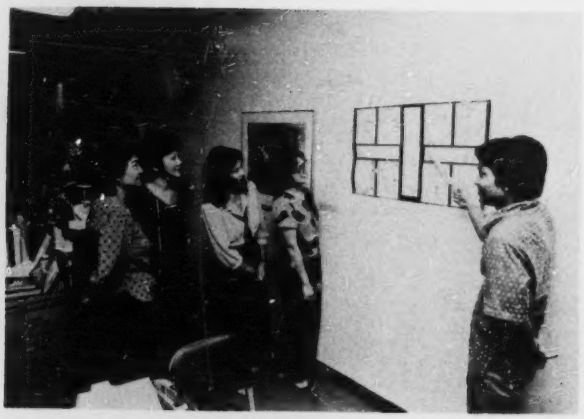
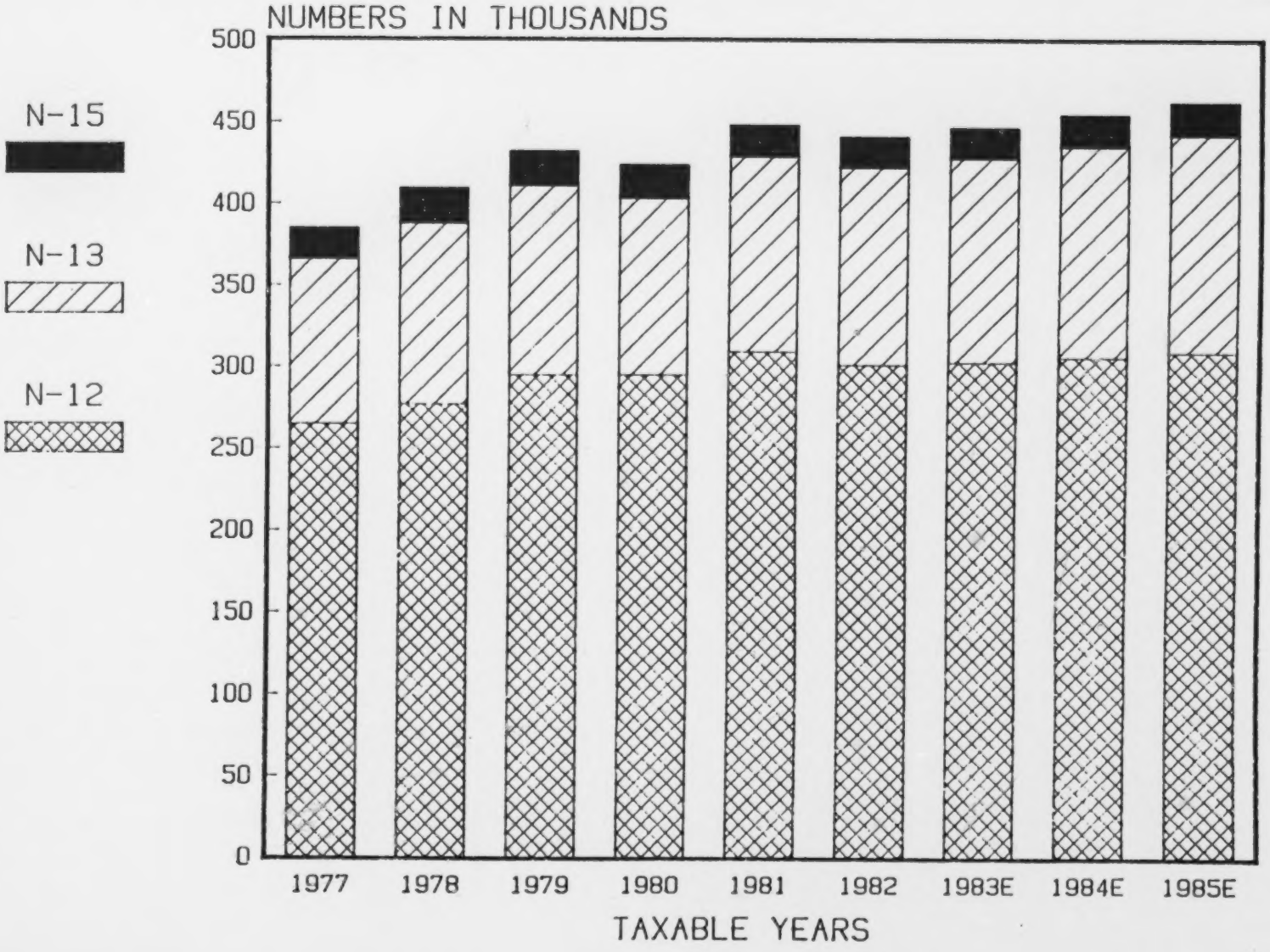


Taxpayer Services Branch
Priority Program: Information and assistance to taxpayers

Enforcement Branch
Priority Program: Identify and assess non-filing taxpayers

INDIVIDUAL INCOME TAX RETURNS PROCESSED*



* The above chart depicts the number of returns filed each year by type of returns. Actual data are used for the period 1977 to 1982 and estimated data are used for the period 1983 to 1985.